

# FOREIGN STOCK INVESTMENT OPTION SEARCH

## September 8, 2004

The Wisconsin Deferred Compensation (WDC) Program Investment Committee requested searches for possible replacements for the T. Rowe Price International Stock Fund at the August 19, 2004 Investment Committee meeting.

On September 3, 2004, T. Rowe Price informed Nationwide Retirement Solutions (NRS) that effective January 1, 2005, they will no longer waive the redemption fee on international funds (all funds?) currently allowed for omnibus retirement accounts such as the WDC. There is a 2% redemption fee for shares sold within 90 days of purchase. A formal announcement will go out the third week in September. If the T. Rowe Price International Fund is walled off to new purchases, the redemption fee should not be an issue for WDC participants. T. Rowe Price also announced redemption fees on several other funds including index funds and high yield funds.

NRS is aware of these new redemption fees for the T. Rowe Price International Stock Fund and will be able to administer participant level redemption fees beginning in early 2005. Transactions will be posted to participant accounts for sales of shares other than for normal distributions or for withdrawals of funds held longer than the 90 days since purchase. Short-term redemption fees may become more common across the mutual fund industry, particularly among international funds, but may become common in other asset categories as well.

The T. Rowe Price International Stock Fund remains available to participants through the Schwab PCRA account.

### **Foreign Stock Funds**

The two funds recommended for consideration according to the fund selection criteria found in the Wisconsin Investment Policy Statement are the following:

***EuroPacific Growth Fund (Class R5)***  
***Harbor International Fund (Institutional Class)***

Also included in this review is the ***Dimensional Large Cap International Portfolio*** discussed briefly at the Investment Committee meeting. All three funds are highly correlated to each other and to the MSCI EAFE Index. The WDC also offers an EAFE Index Fund. Either an actively managed blend or value fund would add diversification to the plan.

The ***EuroPacific Growth Fund (Class R5)*** (foreign large blend), offered by the American Funds, is the option recommended by NRS. A blend investment strategy (core) is preferred over value only or growth only strategies because of the volatility of both strategies during various cycles of the market. The fund has low expenses of 0.61%. The management structure utilizes the typical American Funds way of assembling several long-tenured managers as part of a team approach. The fund's assets are \$33 billion and portfolio turnover is low. Performance exceeds the MSCI EAFE Index for the three and five-year periods and the foreign large blend category average for the one, three and five-year periods. The fund also beats the MSCI World Ex-US Index for three of the past five calendar years. Emerging markets exposure is approximately 16%. There are no redemption fees currently anticipated by this fund.

The *Harbor International Equity Fund (Investor Class)* (foreign large value) is actively managed by Hakan Castegren, the longest serving manager in the foreign large value group. Castegren and his team rely on a wide-ranging blue-chip value style. Emerging markets exposure is listed as 13% of assets. The fund's expense ratio is 0.86%. Performance exceeds the MSCI World Ex-US Index and falls within the top half of the category for the three and five-year periods. Performance exceeds the Index for seven of the past ten calendar years. Assets are \$7 billion. Harbor's prospectus states that there is a 2.00% fee for redemptions within 60 days of purchase. Harbor indicates that if NRS has the capability to administer the fee at the participant level, that they would request that we do so.

*Dimensional International Value Portfolio* –. The *Dimensional International Value Portfolio* pursues its objective by investing in the stocks of large non-US companies which the Advisor believes to be value stocks at the time of purchase. Securities are considered value stocks primarily because a company's shares have a high book value in relation to their market value (BtM). This BtM sort excludes firms with negative or zero book values. In assessing value, additional factors such as price to cash flow or price to earning ratios may be considered, as well as economic conditions and developments in the issuer's industry.

The median market cap of *Dimensional International Value Portfolio* is considerably smaller than the other two recommended funds (\$7 billion vs. \$17 billion for EuroPacific Growth and \$24 billion for Harbor). Expenses are very low at 0.52%. The fund has assets of \$1.1 billion in assets and is well diversified with over 600 securities. Performance ranks within the top one-third of all foreign large value funds for the one, three, and five-year periods. The fund beats the MSCI EAFE Index each calendar year since inception (2/94) except for 1997. It also outpaces the foreign large category average each calendar year except for 1997.

The original recommended list included the *Dimensional Large Cap International Portfolio* (foreign large blend) because of its blend investment style. The *Dimensional Large Cap International Portfolio* invests in a market-weighted portfolio of the stocks of large non-U.S. companies. Performance tends to track the MSCI EAFE Index. Performance falls within the top one-third of foreign large blend funds for the one, three, and five-year periods and exceeds the MSCI World-Ex US Index for three of the past five calendar years. Emerging markets exposure is around 5%. Expenses are a low 0.43%. The fund has assets of \$650 million while the total strategy's assets total \$53 billion. Portfolio turnover is very low. There are no short-term redemption fees listed in the prospectus.

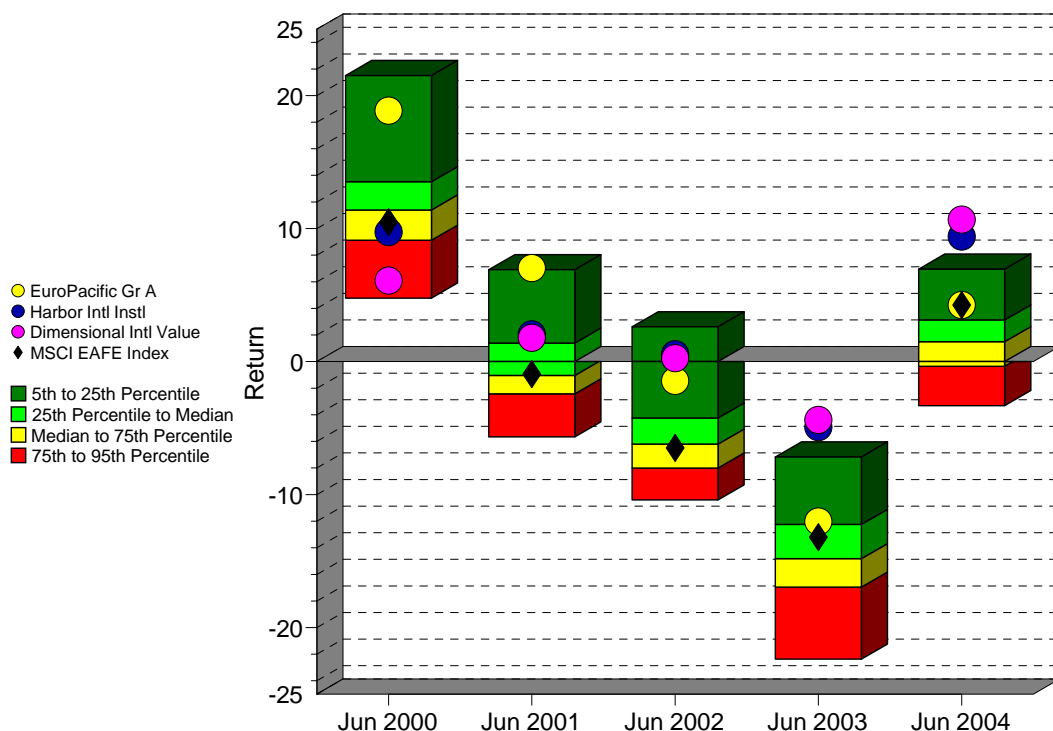
### **Recommendation**

Of the funds reviewed here, the EuroPacific Growth Fund (Class R5) is recommended. It is a large blend style fund (a combination of growth and value styles) and demonstrates more consistent performance over time vs. value or growth styles.

## Foreign Stock Funds

# Manager vs Universe: Return

Morningstar Foreign Stock / Large Cap Blend Universe



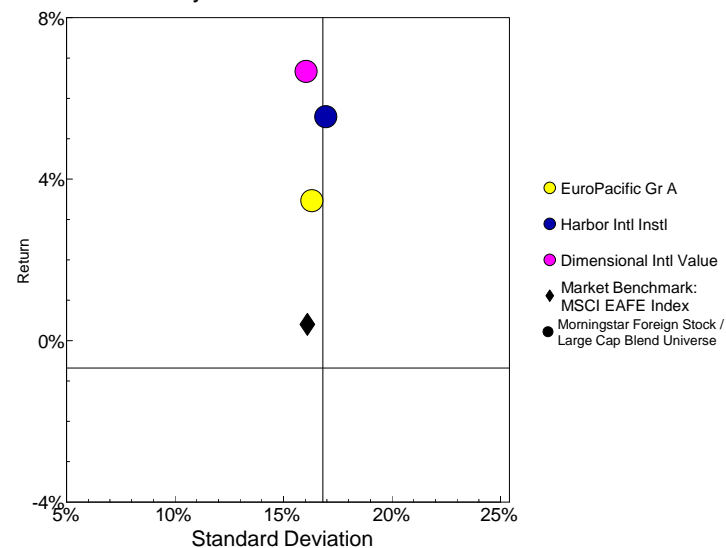
	Jun 2000	Jun 2001	Jun 2002	Jun 2003	Jun 2004
5th Percentile	21.51%	6.91%	2.61%	-7.17%	6.95%
25th Percentile	13.53%	1.39%	-4.25%	-12.24%	3.13%
Median	11.40%	-1.04%	-6.21%	-14.82%	1.49%
75th Percentile	9.12%	-2.43%	-8.00%	-16.96%	-0.36%
95th Percentile	4.77%	-5.67%	-10.41%	-22.37%	-3.31%
EuroPacific Gr A	18.86%	7.03%	-1.45%	-12.02%	4.25%
Harbor Intl Instl	9.73%	2.05%	0.56%	-4.93%	9.40%
Dimensional Intl Value	6.09%	1.78%	0.25%	-4.38%	10.67%
MSCI EAFE Index	10.48%	-0.95%	-6.49%	-13.20%	4.25%

Morningstar Foreign Stock / Large Cap Blend Universe

## Manager Risk/Return

Single Computation

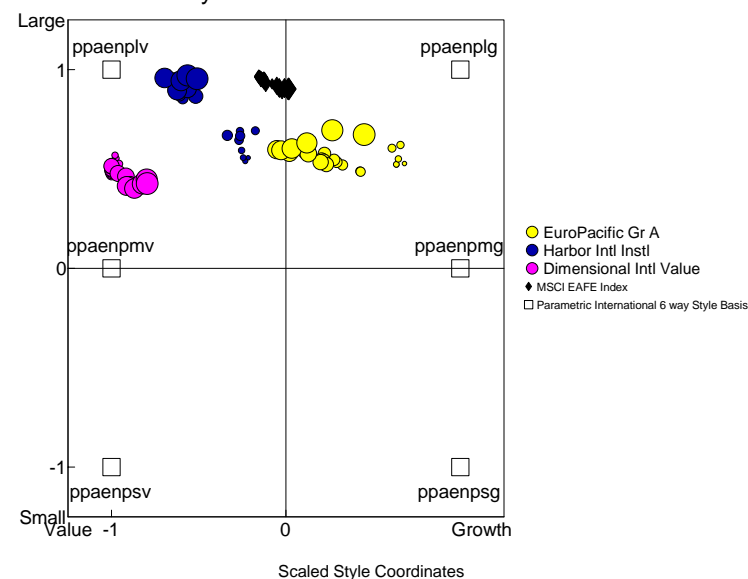
July 1999 - June 2004



## Manager Style

36-Month Moving Windows, Computed Monthly

July 1999 - June 2004



☒ Security  
☐ Manager's View Participant



## American Funds EuroPacific Gr R5 RERFX

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**Morningstar Take** | 06-29-2004

By Gareth Lyons

### American Funds EuroPacific Growth's many positives outweigh our mild concerns about it.

This fund's assets have grown from \$33 billion at the end of 2003 to an all-time high of \$42 billion, making it by far the largest foreign offering. For most funds, such an asset base would make it hard for a single manager to build and reduce positions. However, this fund's multimanager setup and low-turnover approach help to mitigate our concerns. Although we're not thrilled about the velocity of recent inflows, we think the fund's structure better lends itself to asset growth than that employed by other funds.

The approach not only allows for greater capacity, but also gives the fund a dynamic quality. A team of portfolio managers runs this offering, with each managing a portion of assets independently. Their approaches are long-term focused and range from value-driven to growth-oriented, giving way to a low-turnover, well-balanced fund that won't necessarily dazzle but will hold steady in varying market conditions. The fund also has an opportunistic streak. For example, the team recently bought more of scandal-tainted oil company Royal Dutch Petroleum RD . That position now shares a top-10 spot with another unloved European firm, grocer Royal Ahold AHO . There's a risk that management's troubled picks could stay that way, but, as the fund's stellar record suggests, the team's patient approach usually pays off.

Lately, the fund has been behaving just as we might expect. An uncertain global outlook has seen many of this fund's largest holdings such as stalwarts Nestle NSRGY and Unilever UN begin to flex their muscles, after trailing for the past 18 months. This fund's 3.5% return for the year to date through May 31 bests 90% of its rivals.

### Kudos

Consistently strong performance. Solid tax efficiency. Buy-and-hold discipline.

### Risks

Above-average emerging-markets exposure. Some sector concentration. Asset growth has picked up.

### Strategy

The fund divides assets among several portfolio counselors (managers), whose investment philosophies vary from growth-focused to value-oriented. In the aggregate, the fund's portfolio is well-diversified across countries and sectors, and its price multiples usually stay close to the category norms. Several of the managers like to pick up stocks on the cheap and then hold them for the long haul. The fund's turnover is quite low.

### Management

Like all American Funds, this offering boasts many experienced managers, most of whom have been with the company for more than a decade. Each

While this fund's size can't be ignored, it's clear that it isn't preventing this team from outshining the pack. This remains a splendid option.

Returns	Total Return %	+/- Category
08-04	3.28	3.05
2003	33.24	-0.22
2002	---	---
2001	---	---

**Fund Family Grade: 4.0**

#### Role in Portfolio

Core. This is the only international fund most investors need.

manager runs his or her portion of assets independently of the others. A portion of the portfolio (less than 25% of assets) is run by the firm's analyst staff.

#### Inside Scoop

This fund keeps things simple. It buys the biggest and best foreign companies and holds on to them. At more than \$40 billion in assets, it is a behemoth itself.

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☒ Security  
☐ Manager's View Participant

## Harbor International Instl HAINX



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### Morningstar Take | 06-12-2004

By William Samuel Rocco

### Investors are smart not to be put off by this fund's early-2004 struggles.

Harbor International certainly hasn't distinguished itself on the performance front in recent months. Its oversized metals stake has been a burden, as many stocks in that industry have declined on worries about higher U.S. interest rates and slower growth in China. In addition, top holding BHP Billiton BHP is down 6% this year. The fund has also been hurt by its significant positions in emerging-markets energy stocks China Petroleum and Petrobras. Though Ericsson and some other picks have prospered, the fund has gained just 2% and is mired in its category's bottom quartile for the year to date.

Investors seem unperturbed about this underperformance--management says the fund has received about \$550 million in inflows this year--and shareholders' resolve makes a lot of sense given management's consistent record of success. The fund earned top-quartile returns in five of the past 10 calendar years, and it posted solid results in four of the other five years. Thus, it boasts a 10% annualized gain over the past decade, which ranks second among foreign large-value offerings and sixth among all foreign large-cap funds.

This strong long-term record isn't the only reason that recent investors in this fund were wise to overlook the recent woes. Hakan Castegren is the longest-serving manager in the foreign large-value group. He was named Morningstar's International Manager of the Year in 1996; and he's supported by four savvy investment professionals, including Jim LaTorre, who had notable success running Harbor International II before it merged into this offering. And Castegren and his team rely on a wide-ranging blue-chip value style that should appeal to blend- and bargain-

### Kudos

Impressive long-term record. Buy-and-hold strategy. Relatively low expenses.

### Risks

Bias toward financial, consumer-goods, and industrial-materials names leads to problems at times. Strict value discipline and blue-chip bias can slow the fund in go-go growth rallies and hard-core small-cap surges. Has made several sizable capital-gains distributions in recent years.

### Strategy

Manager Hakan Castegren looks for undervalued large caps that have strong franchises, good restructuring plans, or other reasons to be optimistic about their earnings prospects. In addition, he considers macroeconomic factors and industry themes. He also has a long investment horizon and rarely hedges the fund's currency exposure. The fund has a 2% redemption fee on shares held fewer than 60 days, and it uses an outside

oriented investors.

In short, this fund remains a terrific core international holding.

Returns	Total Return %	+/- Category
08-04	1.90	-2.03
2003	40.95	1.63
2002	-6.38	5.01
2001	-12.25	1.88

**Fund Family Grade: NA**

#### Role in Portfolio

Core: With strong long-term returns, limited volatility, low expenses, and a talented manager, this fund is one of the best core international holdings.

service to set fair- value prices in certain situations.

#### Management

Hakan Castegren, who has run this fund since its late-1987 inception, is the longest-serving manager in the foreign large-value group and was named Morningstar Manager of the Year in 1996. He's supported by four very experienced analysts: Jim LaTorre, Howard Appleby, Jean-Francois Ducrest, and Ted Wendell.

#### Inside Scoop

Harbor made this value-oriented fund an institutional share class in late 2002, but it opened an investor share class at the same time; and that fund has a modest minimum and reasonable expenses. Moreover, the investment minimum for this fund's institutional share class recently dropped from \$100,000 to \$50,000.

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# Dimensional International Value

Data Updated Through 8-31-2004

Benchmark  
MSCI EAFEMorningstar Category  
Foreign Large ValueOverall Rating  
★★★★

Out of 54 funds

Trailing Return	Total Return %	+/- Benchmark	+/- Cat Avg	Category % Rank
1 Mo	1.25	0.81	0.50	23
3 Mo	1.55	2.11	0.86	30
6 Mo	0.99	3.05	1.57	22
YTD	6.65	5.03	2.71	17
1 Yr	30.56	7.92	7.61	4
3 Yr	10.00	5.60	2.80	16
5 Yr	5.18	6.34	1.92	36
10 Yr	6.27	2.85	0.09	59
15 Yr	--	--	--	--
Inception	6.61	--	--	61

Risk/Reward			
Morningstar Rating	3-Year ★★★★★	5-Year ★★★★★	10-Year ★★★★★
Risk	3.63	2.72	2.38
Return	8.47	2.10	2.05
Funds in Rating Group	54	46	23

Versus Benchmark	3-Year	5-Year	10-Year
Alpha	5.41	6.13	2.81
Beta	1.06	0.90	0.93
R-Squared	0.94	0.82	0.86
Tracking Error	4.51	7.02	5.69
Information Ratio	1.19	0.91	0.48
Geo Excess Return	5.37	6.42	2.76

Versus Cat Avg	3-Year	5-Year	10-Year
Alpha	2.37	1.63	-0.38
Beta	1.06	1.01	1.00
R-Squared	0.97	0.93	0.90
Tracking Error	3.34	4.21	4.76
Information Ratio	0.77	0.36	-0.10
Geo Excess Return	2.59	1.52	-0.47

Miscellaneous	3-Year	5-Year	10-Year
Standard Deviation	18.01	16.10	15.08
Sharpe Ratio	0.47	0.13	0.13
Sortino Ratio	0.65	0.17	0.18

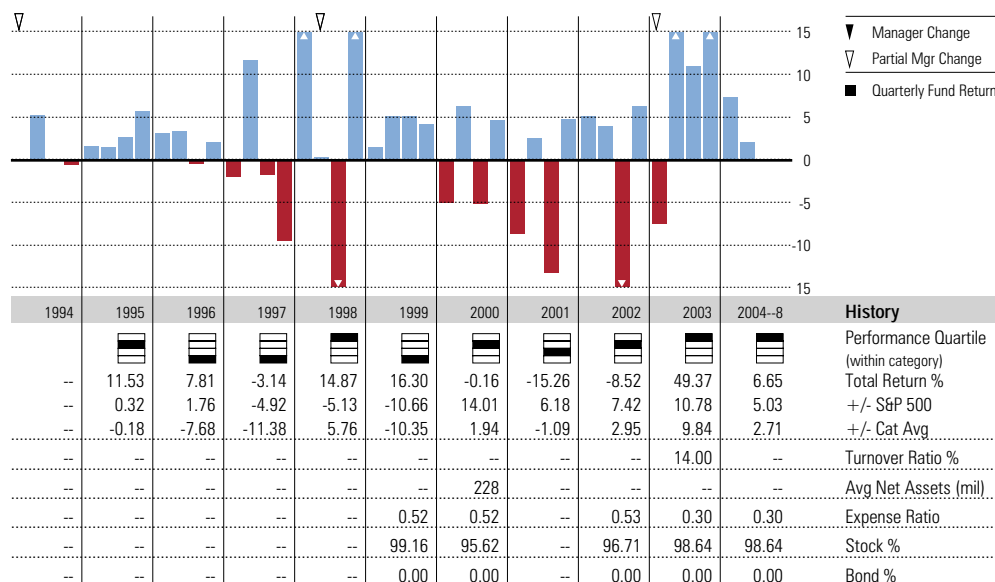
## Manager Information

--- Management Team.

## Investment Strategy

Dimensional International Value Portfolio seeks long-term capital appreciation.

The fund normally invests at least 65% of assets in stocks of large companies domiciled in at least three foreign countries. It may invest no more than 40% of assets in any one country. The fund seeks companies that have high book-to-market ratios and capitalizations of at least \$800 million. It invests only in developed markets.



## Holding Analysis as of 1-31-2003

Composition			Top 20 Holdings			Style	Mkt Cap	% Net	
						Box	\$mil	Assets	
○ Cash	1.20	--	BNP Paribas		Financial		35,447	2.52	
● U.S. Stocks	0.14	512 *	ING Groep		Financial		30,322	2.18	
● Non-U.S. Stocks	98.50		Matsushita Elec Indl		Materials		19,901	1.85	
● Bonds	0.00	3	ABN Amro Hldgs		Financial		24,759	1.79	
● Other	0.16	3	BASF		Materials		21,066	1.78	
*Total Stocks	Total	100.00	515						
Equity Style %			Cie Financiere Richemont Ag, Zug			--	--	1.71	
Value Blend Grwth	Market Cap	%	Societe Generale CI A	--	Financial		24,251	1.68	
Large Mid Small	Giant	17	Hitachi		Hardware		13,922	1.53	
	Large	34	Aviva		Financial		14,542	1.51	
	Medium	45	Deutsche Bk (Reg)	--	Financial		28,087	1.50	
	Small	3	Banca Intesa		Financial		14,189	1.25	
	Micro	0	Pnc Bank	--	--		--	1.19	
	Avg Mkt Cap (mil)	5013	Fuji Photo Film		Cons Goods		15,493	1.05	
Measures			Baloise Hldg (Reg)		Financial		1764	1.04	
Price/Earnings	13.33	-7.22	-5.25	Svenska Cellulosa CI B		Materials		7262	0.99
Price/Book	1.14	-3.46	-2.47	Acesa Infraestructuras Sa, Barcelona	--	--		--	0.98
Price/Sales	1.16	-1.07	-0.52	BAA		Bus Svcs		7820	0.97
Price/Cash Flow	7.31	-4.33	-2.84	J Sainsbury		Cons Svcs		7506	0.93
1 Yr Forward Growth Est	10.47	-4.19	-2.65	Peugeot Citroen		Cons Goods		10,223	0.92
3 Yr Trailing Growth Rate	2.53	--	-4.55	Volvo CI A Free	--	Materials		--	0.91

## Fixed-Income Style

Short	Int	Long	Avg Eff Duration <sup>1</sup>	--
0	0	0	Avg Eff Maturity <sup>1</sup>	--
0	0	0	Avg Credit Quality <sup>1</sup>	--
0	0	0	Avg Wtd Coupon	--
0	0	0	Avg Wtd Price	--

Credit Rating Breakdown	%	Maturity Breakdown	%
U.S. Govt	--	1-3	--
AAA	--	3-5	--
AA	--	5-7	--
A	--	7-10	--
BBB	--	10-15	--
BB	--	15-20	--
B or Below B	--	20-30	--
Not Rated	--	30+	--

## Holding Details

Assets in top 10 Holdings	%	Assets in top 25 Holdings	%
Top 3 Sectors	%	+/- Bmark	+/- Cat
Financial Services	32.12	6.65	8.24
Industrial Materials	28.46	16.38	11.57
Consumer Services	10.15	4.79	4.35
Super Sectors	%	+/- Bmark	+/- Cat
Information	5.77	-11.27	-8.34
Service	48.81	4.77	8.69
Manufacturing	45.41	6.50	-0.37
Super Regions	%	+/- Bmark	+/- Cat
Americas	0.14	-0.36	-6.36
Greater Europe	71.29	5.45	7.93
Greater Asia	28.58	-5.06	-1.56

## Operations

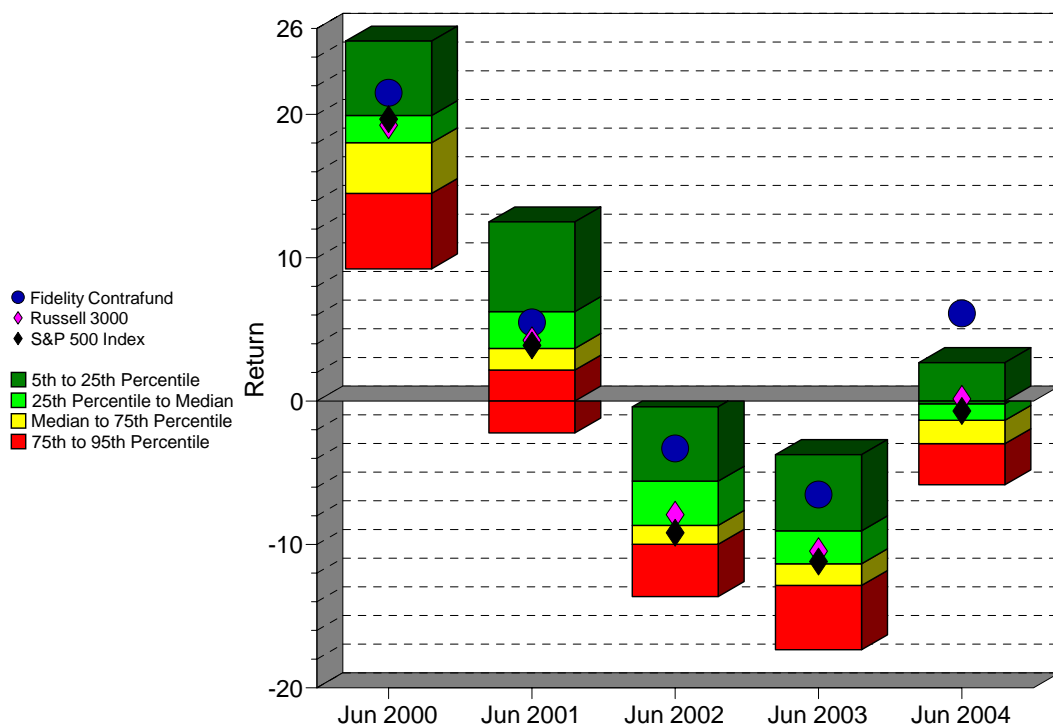
Minimum Retail	--	Management Fee	0.40%	Firm Name	Dimensional Investment Group
Minimum Institutional	--	Sales Fees	0.00F 0.00D 0.00R	Phone	--
Inception Date	2-15-1994	12b-1 Fees	--	Web Address	www.dfafunds.com



## Fidelity Contrafund

# Manager vs Universe: Return

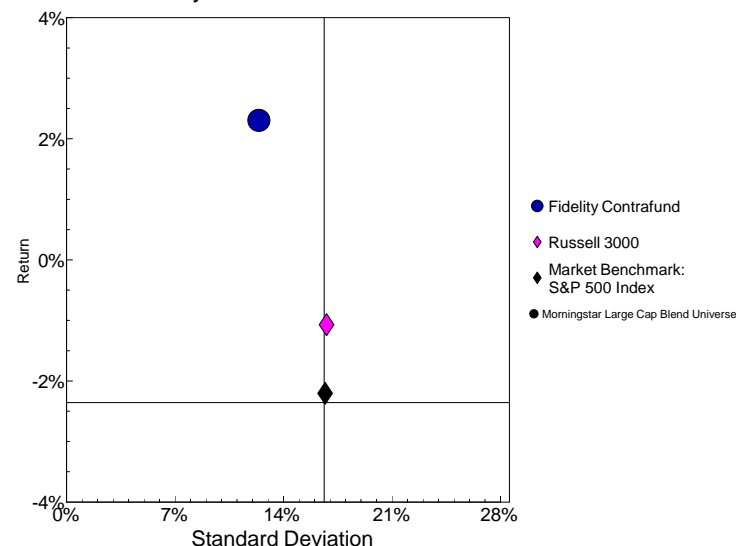
Morningstar Large Cap Blend Universe



## Manager Risk/Return

Single Computation

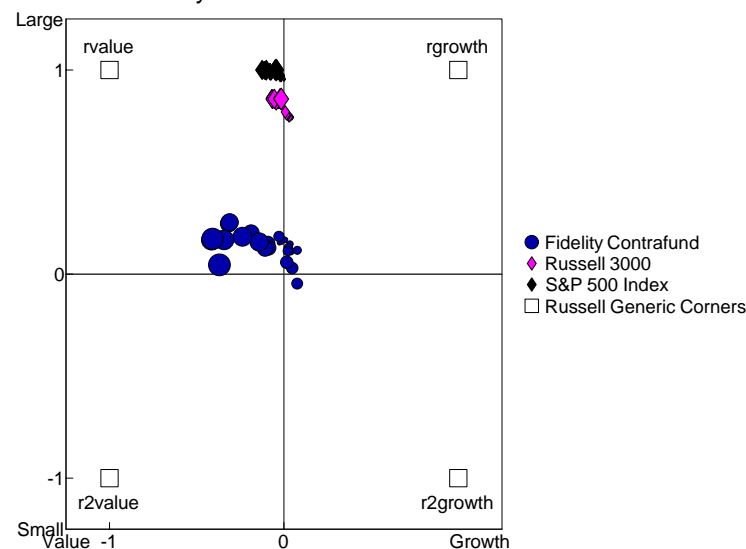
July 1999 - June 2004



## Manager Style

36-Month Moving Windows, Computed Monthly

July 1999 - June 2004



	Jun 2000	Jun 2001	Jun 2002	Jun 2003	Jun 2004
5th Percentile	25.11%	12.50%	-0.40%	-3.73%	2.68%
25th Percentile	19.92%	6.24%	-5.58%	-9.05%	-0.19%
Median	18.03%	3.68%	-8.67%	-11.35%	-1.34%
75th Percentile	14.49%	2.17%	-9.98%	-12.86%	-2.97%
95th Percentile	9.22%	-2.22%	-13.63%	-17.35%	-5.84%
Fidelity Contrafund	21.51%	5.49%	-3.30%	-6.52%	6.11%
Russell 3000	19.24%	4.25%	-7.92%	-10.47%	0.15%
S&P 500 Index	19.66%	3.89%	-9.18%	-11.20%	-0.69%

Morningstar Large Cap Blend Universe

Created with Zephyr StyleADVISOR. Manager returns supplied by: Morningstar, Inc.

☐

☐ Security  
☐ Manager's View Participant



## Fidelity Contrafund FCNTX

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**Morningstar Take** | 04-30-2004  
By Christopher J. Traulsen, CFA

### Fidelity Contrafund is going for growth.

Manager Will Danoff played defense here during the bear market, rotating the fund entirely out of tech stocks and focusing on steadier names. In 2003, however, he shifted that stance: The fund's tech stake stood at 12.4% at year-end, up from just 3.1% at the end of 2002. Although picks such as Colgate-Palmolive CL and Avon AVP remained prominent in the fund, holdings such as Yahoo YHOO , Genentech DNA , Samsung, and Nextel NCTL crept into the top 25.

As different as those stances may sound, in both cases, Danoff put earnings growth first. In the bear market, he stuck with names he believed could deliver growth through the downturn. Now that the economy is rebounding, he is emphasizing companies that can deliver the best growth in a recovery. He's also willing to pay more for "best of breed" growth companies. In the biotech area, for example, Danoff loves Genentech and was willing to pay up for it, even after the announcement that its Avastin cancer drug had done well in trials drove the stock price up sharply.

Danoff's moves worked well in 2003. His rotation into growthier names and his continued exposure to mid-caps helped the fund turn in a top-half, 28% return in 2003. The fund also posted a top-decile 5.4% return for the year to date through April 28, 2004.

Contrafund's long-term record sparkles as well, but that's not the only reason we like it. Part of the challenge of running money at Fidelity is adapting the work of the firm's vast research staff to one's own style. Danoff has excelled at this, taking what he can use from the staff and prodding analysts to look at companies in a different light when he

### Kudos

Steadier than most large-blend offerings. Fund has managed to succeed in recent years despite its enormous girth. Danoff's long track record of excellent stock-picking proves that he's one of the best at Fidelity.

### Risks

Huge asset base makes the fund difficult to maneuver.

### Strategy

Call it forced evolution. As this fund's asset base grew in the 1990s, manager Will Danoff has had to move away from mid-caps and small caps and adopt a growth-at-a-reasonable-price philosophy. He continues to keep a big part of the fund in mid-caps, but the fund is now dominated by larger fare. The fund has been more conservative than most of its large-blend rivals in recent years, with big underweightings in racy sectors such as technology, but Danoff is starting to ramp up its exposure to growth companies.

### Management

believes they're missing something.

We don't like everything about this fund. It's too big, and Danoff's rapid trading runs up costs. Nevertheless, Danoff has shown that he is capable of overcoming both challenges. We think this remains a good choice for investors seeking a core holding with an opportunistic streak.

Returns	Total Return %	+/- Category
08-04	1.26	2.10
2003	27.95	1.07
2002	-9.63	12.19
2001	-12.59	-0.48

Will Danoff has been at the helm since 1990 and is backed by Fidelity's deep research staff. He has adapted his style to the fund's size by holding more large caps, but he continues to trade very rapidly, which could increase the fund's trading costs. He's also now running a new fund, Fidelity Advisor New Insights FNIAX .

**Fund Family Grade: 3.6**

#### Role in Portfolio

Core. The fund's diversified equity portfolio and tendency to underweight volatile arenas such as technology make it a solid core holding.

#### Inside Scoop

A fine long-term record has attracted a lot of new assets and transformed this once-small offering into one of the largest in the mutual-fund universe.

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